



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MCCRACKEN COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**As of April 30, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MCCRACKEN COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**As of April 30, 2000**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 1999 Taxes for McCracken County Sheriff as of April 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected net taxes of \$15,019,237 for the districts for 1999 taxes. The Sheriff distributed taxes of \$14,927,298 to the districts for 1999 taxes. Taxes of \$75,865 are due to the districts from the Sheriff and a refund of \$3,350 is due from the state.

**Report Comments:**

- The Sheriff Should Settle With The Taxing Districts For 1999 Taxes
- The Sheriff Should Remit \$28,810 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,825,290 And Enter Into A Written Agreement To Protect Deposits

**Deposits:**

The sheriff's deposits were not fully insured or collateralized by bank securities.

**Subsequent Event:**

Based on our audit of the McCracken County Sheriff's Settlement - 2000 Taxes, the Sheriff is due refunds of \$44,253 from the taxing districts and \$36,247 is due from the state for a total of \$80,500. Please review this audit report for further analysis.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Danny Orazine, McCracken County Judge/Executive  
Honorable Frank Augustus, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the McCracken County Sheriff's Settlement - 1999 Taxes as of April 30, 2000. This tax settlement is the responsibility of the McCracken County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCracken County Sheriff's taxes charged, credited, and paid as of April 30, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Settle With The Taxing Districts For 1999 Taxes
- The Sheriff Should Remit \$28,810 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,825,290 And Enter Into A Written Agreement To Protect Deposits

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
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Honorable Frank Augustus, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2001, on our consideration of the Sheriff's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 17, 2001



MCCRACKEN COUNTY  
FRANK AUGUSTUS, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

As of April 30, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,113,030	\$ 1,452,105	\$ 5,921,330	\$ 2,922,875
Tangible Personal Property	398,872	229,239	852,076	1,087,528
Intangible Personal Property				539,943
Franchise Corporation	221,405	139,278	439,714	
Omitted Taxes	655	570	2,109	943
Increased Through Erroneous Assessments	1,230	581	4,225	1,840
Penalties	15,115	10,634	39,337	22,738
Adjusted to Sheriff's Receipt	20	30	34	2
Gross Chargeable to Sheriff	<u>\$ 2,750,327</u>	<u>\$ 1,832,437</u>	<u>\$ 7,258,825</u>	<u>\$ 4,575,869</u>
<u>Credits</u>				
Discounts	\$ 40,011	\$ 26,385	\$ 107,399	\$ 71,564
Exonerations	22,129	17,617	63,572	185,231
Delinquents:				
Real Estate	55,308	39,940	133,729	76,500
Tangible Personal Property	6,362	3,499	2,975	9,382
Intangible Personal Property				11,605
Omitted Tax Bills	50	34	107	76
Uncollected Franchise	6,248	2,970	18,414	
Bankruptcy Credit	1,564	675	5,057	2,390
Total Credits	<u>\$ 131,672</u>	<u>\$ 91,120</u>	<u>\$ 331,253</u>	<u>\$ 356,748</u>
Net Tax Yield	\$ 2,618,655	\$ 1,741,317	\$ 6,927,572	\$ 4,219,121
Less: Commissions *	<u>111,580</u>	<u>52,603</u>	<u>143,645</u>	<u>179,600</u>
Net Taxes Due	\$ 2,507,075	\$ 1,688,714	\$ 6,783,927	\$ 4,039,521
Taxes Paid	2,482,086	1,673,595	6,735,025	4,036,592
Refunds (Current and Prior Year)	<u>4,363</u>	<u>2,435</u>	<u>6,347</u>	<u>6,279</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 20,626</u>	<u>\$ 12,684</u>	<u>\$ 42,555</u>	<u>\$ (3,350)</u>

\* and \*\* See Page 4

MCCRACKEN COUNTY  
 FRANK AUGUSTUS, SHERIFF  
 SHERIFF'S SETTLEMENT - 1999 TAXES  
 As of April 30, 2000  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on		7,910,529
4% on		254,669
1% on		658,564
2% on		6,672,903

\*\* Special Taxing Districts:

Lone Oak City	\$	486
Health District		4,106
Extension District		1,914
Mental Health		1,542
Concord Fire		1,002
Hendron Fire		118
Lone Oak Fire		43
Reidland Fire		828
West McCracken Fire		<u>2,645</u>
Due Districts	\$	<u><u>12,684</u></u>

The accompanying notes are an integral part of the financial statement.

MCCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 23, 1999 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,825,290 of public funds uninsured and unsecured. As of April 30, 2000 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$746,913 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral pledged to secure any amount that exceeds the amount on deposit, leaving \$1,825,290 as of December 23, 1999 and \$786,940 as of April 30, 2000 of public funds uninsured and unsecured.

MCCRACKEN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 April 30, 2000  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 23, 1999.

	<u>Bank Balance</u>
Insured by FDIC Insurance	\$ 100,000
Uncollateralized and uninsured	<u>1,825,290</u>
Total	<u>\$ 1,925,290</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 10, 1999 through April 30, 2000.

Note 4. Interest Income

The McCracken County Sheriff earned \$68,320 as interest income on 1999 taxes. The Sheriff did not distribute the appropriate amounts of interest to the school districts as required by statute. The county school is due \$28,718 and the city school is due \$92.

Note 5. Escrow Account

The McCracken County Sheriff opened an escrow account in March 1998. The beginning balance on May 1, 1999 was \$15,670. During the current year \$720 of interest was deposited into the Escrow Account. The balance at April 30, 2000 was \$16,390. However prior year unrefundable duplicate payments and unexplained receipts of \$1,857 have not yet been deposited and are still due to the Escrow Account for 1998 taxes.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$10,405 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should escrow these funds and send a written report to the Treasury Department.

MCCRACKEN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
April 30, 2000  
(Continued)

Note 7. Subsequent Event:

Based on our audit of the McCracken County Sheriff's Settlement - 2000 Taxes, the Sheriff is due net refunds of \$44,253 from the taxing districts and \$36,247 is due from the state totaling \$80,500. The following amounts are refunds due to the Sheriff: County \$13,204; Library District \$3,201; Health District \$2,929; Extension District \$1,010; Mental Health \$1,096; Concord Fire District \$24; Hendron Fire District \$21; Lone Oak Fire District \$203; Reidland Fire District \$1,011; Lone Oak City \$63; Common School \$21,979; and Paducah Junior College \$369. The Sheriff owes \$857 to the West McCracken Fire district. The Sheriff is due a refund of \$36,247 from the state.

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## COMMENTS AND RECOMMENDATIONS





MCCRACKEN COUNTY  
FRANK AUGUSTUS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 30, 2000

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Settle With The Taxing Districts For 1999 Taxes

The Sheriff should remit \$75,866 to the taxing districts. The following amounts are due to the taxing districts: County \$20,626; Lone Oak City \$486; Health District \$4,106; Extension District \$1,914; Mental Health \$1,542; Concord Fire District \$1,002; Hendron Fire District \$118; Lone Oak Fire District \$43; Reidland Fire District \$828; West McCracken Fire District \$2,645; Common School \$40,446; and Paducah Junior College \$2,109. The Sheriff should receive a refund of \$3,350 from the state. We recommend that the Sheriff remit the payments to the taxing districts and obtain the refund from the state.

*Sheriff's Response:*

*This problem was found after the state auditor completed our yearly audit. The mistake was made from the bookkeeping of moneys collected for Franchise Taxes in the month of February. This month was over looked in disbursements but shall be disbursed to the proper districts. The tax program used by this office is out dated and we are having several problems with the program. The McCracken County Fiscal Court is aware of the types of problems not only the Sheriff Office have with the program but also the County Clerks Office. Before the 2001 property taxes this office hopes to have a new tax program installed.*

2) The Sheriff Should Remit \$28,810 To The School Districts For Interest Earned On The Investment Of School Taxes

Pursuant to KRS 134.140(3), the Sheriff shall pay to the Board Of Education the proper share of interest earned on investment of school taxes. The proper share shall be determined by comparing the school tax to the total taxes collected and using that percentage as a factor. For the 1999 taxes, 43 percent of the interest earned is due the county school and .14 percent is due to the city school. Total interest earned was \$68,320 through April 30, 2000, and the county schools' share would be \$29,303 less the Sheriff's collection fee of \$586 leaving \$28,718 payable to the county school. The city schools' share would be \$96 less the Sheriff's collection fee of \$4 leaving \$92 payable to the city school. The Sheriff has not paid any interest to the schools leaving \$28,810 due at the date of this audit. These funds were turned over to the county in fees. We recommend the Sheriff recover funds due from the county and pay amounts due to schools promptly.

*Sheriff's Response:*

*Tax moneys are paid from collections to all taxing districts on or before the 10<sup>th</sup> of each month. All sheriff tax commissions, sheriff fees, and interest earned from collection are paid to the McCracken County Treasurer. Recorded into record an agreement has always been between the McCracken County Board of Education and the Sheriff Office of the interest being paid to McCracken County and the Sheriff keeping his commission the same without being raised. This agreement would take care of expenses incurred in the collection of taxes for the McCracken County School District*

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MCCRACKEN COUNTY  
 FRANK AUGUSTUS, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 As of April 30, 2000  
 (Continued)

- 2) The Sheriff Should Remit \$28,810 To The School Districts For Interest Earned On The Investment Of School Taxes (Continued)

*Sheriff's Response: (Continued)*

*The McCracken County Treasure was written a check from the Sheriff's Fee Account for the total of moneys, monthly, interest payment of tax account. The Sheriff will attempt to collect the total of interest from the McCracken County Fiscal Court to reimburse interest due to School Board Districts.*

- 3) The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,825,290 And Enter Into A Written Agreement To Protect Deposits

On December 23, 1999, \$1,825,290 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*A local bank, used in depositing tax dollars was bought out. After being bought our service from this bank continued as always and the securities were placed as written agreement with the previous bank. Again this local bank was bought out, for the second time, and the Sheriff was assured this would just be again the simple changing of name but service would continue the same with again honoring the previous bank's agreements with this office. The State Auditor's Office contacted the bank, while conducting this office's yearly audit and was advised by the bank they did not honor the agreement of securities the previous bank had placed into writing. The written agreement was on file but was not honored. According to federal law, securities are to be placed by bank institutions and were not. The bank violated federal law in not doing so. This office is closing all accounts, which were open with this banking institution.*

PRIOR YEAR:

There were no prior year audit comments.

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Members of the McCracken County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCracken County Sheriff's Settlement - 1999 Taxes as of April 30, 2000, and have issued our report thereon dated August 17, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's Settlement - 1999 Taxes as of April 30, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Settle With The Taxing Districts For 1999 Taxes
- The Sheriff Should Remit \$28,810 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,825,290 And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 17, 2001

